

**SALES AND USE TAX REVIEW COMMISSION
RECOMMENDATION PURSUANT TO P.L. 1999, C. 416**

BILL NUMBER:

A-2910

DATE OF INTRODUCTION:

October 17, 2002

SPONSOR:

Assemblyman Cohen

DATE OF RECOMMENDATION:

January 14, 2003

IDENTICAL BILL:

COMMITTEE:

Assembly Law and Public Safety Committee

DESCRIPTION:

This bill would provide tax and other incentives for the creation of a consortium to develop personalized handguns. The bill would allow for a 50% sales and use tax exemption on the retail sales of personalized handguns manufactured by consortium members, a 50% sales and use tax exemption for materials, supplies and equipment for use in manufacturing or research facilities that are part of the consortium. The sales tax exemptions would further reduce the already reduced 3% rate of tax imposed in urban enterprise zones (UEZs), and UEZ-impacted business districts, and the reduced Salem countywide rate of tax for sales of qualified merchants. The bill would also allow for a rebate program to be established for purchasers of personalized handguns from licensed dealers, and retailers could also obtain a rebate for complying with reporting requirements. The bill also proposes \$1 million appropriation to the New Jersey Institute of Technology for its participation in the personalized weapons project.

ANALYSIS:

In an attempt enhance firearm safety development within the State, the bill offers incentives to firearm manufacturers and high tech companies who join a consortium with each other and the New Jersey Institute of Technology, (NJIT), to develop and produce a personalized handgun production model. In addition, it provides a 50% sales and use tax exemption on the retail sales of personalized handguns manufactured by consortium members, and a 50% sales and use tax exemption for materials, supplies and equipment for use in manufacturing or research facilities that are part of the consortium. The sales tax exemptions would further reduce the rate of tax that is imposed in urban enterprise zones (UEZs), UEZ-impacted business districts, and the reduced Salem countywide rate of tax for sales of qualified merchants.

The sales tax exemptions proposed in this bill benefit a specialized group and do not promote the goal of horizontal equity in that the bill creates disparity between those manufacturers that are members of the personalized handgun consortium and non-

member manufacturers. Sales tax legislation should be broadly based and tax similar transactions, persons or things in a similar manner. Tax treatment should be uniform from one taxpayer to another.

As a matter of policy, this Commission does not support the use of tax exemption legislation as a tool for encouraging socially desirable behavior. The Commission prefers sales and use tax legislation to be more “neutral” in its impact on the behavior of vendors and consumers. Even if this exemption is intended to serve a socially useful purpose such as promoting handgun safety, the Commission does not favor using tax legislation as a social, political, or environmental policy tool.

In addition, such legislation is unnecessary as the State has all ready approved legislation that provides favorable tax treatment for those who possess handguns, in an effort to improve handgun safety. “The Firearm Accident Prevention Act” and “The Secure Firearm Storage Act,” both passed in 1999, provide sales tax exemptions for owners of firearms. Receipts from the sales of firearm vaults are exempt from sales tax, and sales of trigger locks and other devices that enable a firearm to be made inoperable by anyone other than an authorized person, are exempt from sales tax.

Companies and organizations engaged in research and development all ready receive a sales tax exemption. Also, there is an exemption from sales and use tax of from sales of machinery, apparatus or equipment for use or consumption directly and primarily in the production of tangible personal property by manufacturing, processing, assembling or refining. There is no reason to offer special exemptions to manufacturers who may all ready receive such benefits whether or not they chose to participate as a consortium member.

Finally, the bill would result in an estimated \$10 million in lost revenue from firearms and ammunition sales as well as impose a tremendous administrative burden on the Division of Taxation, Department of Revenue and the Office of Management and Budget. Increased administrative responsibilities would include establishing and implementing new tax collection and reporting procedures and methods for separating the revenue earmarked for a non-lapsing “Firearms Safety Fund,” and a non-lapsing “Victims of Firearms Injuries Fund,” from the General Fund. The enactment of this bill would require the State Treasurer to undertake additional responsibilities, which may result in the reallocation of State resources.

RECOMMENDATION: The Commission does not recommend enactment of this Bill.

COMMISSION MEMBERS FOR PROPOSAL: 0

COMMISSION MEMBERS AGAINST PROPOSAL: 7

COMMISSION MEMBERS ABSTAINING: 0

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